

Message Text

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21

ACTION EA-10

INFO OCT-01 ISO-00 FEA-01 ERDA-07 AID-05 CEA-01 CIAE-00

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INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-05

SP-02 SS-15 STR-04 TRSE-00 FRB-01 PA-02 PRS-01 USIA-15

/106 W

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R 270310Z FEB 75

FM AMEMBASSY JAKARTA

TO SECSTATE WASHDC 6789

INFO AMEMBASSY BANGKOK

AMCONSUL HONG KONG

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMEMBASSY TAIPEI

AMCONSUL MEDAN

AMCONSUL SURABAYA

UNCLAS JAKARTA 2431

E.O. 11652: N/A

TAGS: EFIN, EGEN, ID

SUBJ: PUTTING INDONESIA'S OIL WINDFALL INTO PERSPECTIVE

1. WE NOTE TENDENCY IN U.S. CURRENTLY TO UNDERESTIMATE OR DISMISS INDONESIA'S DEVELOPMENT NEEDS BECAUSE OF ITS SUPPOSED "BONANZA" FROM OIL PRICE INCREASES LAST YEAR. ITS INCREASE IN NET GOVERNMENT REVENUES FROM OIL BY \$2.0 BILLION IN 1974/75 FISCAL YEAR) WERE TWO TIMES THE LEVEL OF CONCESSIONAL AID IT WAS RECEIVING ANNUALLY BEFORE OIL PRICE INCREASES. SUCH A GAIN MIGHT SEEM TO NEGATE OR GREATLY REDUCE INDONESIA'S NEED FOR FURTHER AID. IN ADDITION, AN INCLINATION EXISTS TO
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ASSUME THAT INDONESIA, AS OIL EXPORTER, CAME OFF BETTER

IN 1974 THAN ITS LESS FORTUNATE ASIAN NEIGHBORS WHO ARE NET OIL IMPORTERS.

2. WE BELIEVE ATTEMPT TO REDRESS PERSPECTIVE OF INDONESIA'S BENEFITS FROM OIL EXPORTS MAY BE IN ORDER. FOLLOWING PROVIDES COMPARISON OF INDONESIA WITH SIX OTHER ASIAN LDCS (KOREA, MALAYSIA, PHILIPPINES, SINGAPORE, TAIWAN AND THAILAND). DATA ARE FROM IMF MONTHLY FINANCIAL STATISTICS FOR JANUARY, 1975, SUPPLEMENTED BY OUR PROJECTION OF POPULATION LEVELS FOR 1974.

3. PER CAPITA INCOME -- ROUGH MEASURE THAT IT IS -- PROVIDES ESSENTIAL CONTEXT FOR COMPARISONS (1972-LATEST AVAILABLE YEAR). POPULATION FIGURES PROVIDE ADDITIONAL DIMENSION FOR COMPARISON OF INDONESIA'S DEVELOPMENT NEEDS:

COUNTRY	GNP/CAPITA 1972 (IN \$ U.S.)	GNP/CAPITA RATIO	POPULATION (IN MILLIONS)
INDONESIA	87	1.0	128
THAILAND	198	2.3	38
PHILIPPINES	219	2.5	41
KOREA	299	3.4	33
MALAYSIA	418	4.8	11.4
TAIWAN	483	5.6	16
SINGAPORE	1,299	14.9	2.2

RATIO COLUMNSHows THAT GNP PER CAPITA OF NEIGHBORING EAST ASIAN COUNTRIES EXCEEDED INDONESIA'S BY FROM 2.3 TO 14.9 TIMES IN 1972. INDONESIA'S "BONANZA" FROM QUADRUPLED OF ITS OIL EXPORT PRICES ADDED AT MOST \$20-25 TO GNP PER CAPITA, BARELY DETRACTING FROM ITS RELATIVE STATUS AS POOREST OF MAJOR EAST ASIAN LDCS
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(I.E. EXCLUDING LAOS AND CAMBODIA). NOT ONLY DOES INDONESIA'S POVERTY MAKE ITS CAPITAL NEEDS CORRESPONDINGLY GREATER PER CAPITA, BUT ITS TOTAL POPULATION SIZE, 3 TO 11 TIMES THAT OF ITS NEIGHBORS, ACCORDINGLY MULTIPLIES ITS CAPITAL NEEDS.

4. IN THIS CONTEXT, INDONESIA'S EXPORT GAINS IN 1974 WERE WELCOME, BUT OF VERY LIMITED LONG TERM DEVELOPMENT SIGNIFICANCE. INTERESTINGLY, IN YEAR WHEN OIL

IMPORTING LDCS WERE HIT BY MAJOR OIL PRICE INCREASES, FIVE OUT OF SEVEN EAST ASIAN LDCS ACHIEVED FOREIGN EXCHANGE RESERVE INCREASES THROUGH SEPTEMBER. OF THE FIVE, INDONESIA'S GAIN WAS LARGEST IN ABSOLUTE TERMS. HOWEVER, ON PER CAPITA BASIS WHICH GIVES FIGURES REAL MEANING IN TERMS OF INDONESIA'S DEVELOPMENT NEEDS, BOTH ITS TOTAL RESERVES AND ITS RESERVE INCREASES WERE BY FAR LOWEST OF THE FIVE -- DESPITE ITS ADVANTAGE AS AN OIL PRODUCER:

COUNTRY	FX RESERVES 9/30/74	PER CAPITA	12/30/73	CHANGE FROM PER CAPITA	CHANGE
SINGAPORE	1,386	630.00	PLUS 151	PLUS 68.63	
MALAYSIA	1,520	133.30	PLUS 173	PLUS 15.18	
THAILAND	1,771	46.60	PLUS 475	PLUS 12.50	
PHILIPPINES	1,535	37.44	PLUS 497	PLUS 12.12	
INDONESIA	1,589	12.40	PLUS 782	PLUS 6.11	
TAIWAN	1,093	68.31	- 30	- 1.88	
KOREA	1,015	30.75	- 79	- 2.39	

5. INDONESIA COMES OFF ONLY SLIGHTLY BETTER WHEN ITS RESERVE ADEQUACY (SEPTEMBER 1974) IS MEASURED IN TERMS OF NUMBER OF MONTHS OF IMPORT COVERAGE. TAKING IMPORTS FOR FIRST SIX MONTHS 1974 AT ANNUALIZED RATE, INDONESIA RANKS THIRD OR FOURTH HIGHEST OF SEVEN:

COUNTRY	IMPORT COVERAGE (MONTHS)
THAILAND	7.0
PHILIPPINES	5.8
INDONESIA	5.7

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MALAYSIA	4.6
SINGAPORE	2.0
KOREA & TAIWAN	1.9

SINGAPORE HAS HIGHER COVERAGE IF ITS LARGE RE-EXPORTS ARE EXCLUDED.

6. ABOVE FIGURES PRESENT INDONESIAN SITUATION MORE FAVORABLY THAN CURRENT CONDITIONS WARRANTS. RESERVE GAINS WERE MADE DURING PERIOD WHEN NON-OIL EXPORT PRICES HAD RISEN TO RECORD LEVELS. SUBSEQUENTLY THESE PRICES DECLINED ROUGHLY 35 PERCENT, AND INDONESIA EXPERIENCED TEMPORARY SHORTFALLS IN OIL EARNINGS AS WELL, CAUSING 7-8 PERCENT PRICE REDUCTIONS ON SELECTED OIL EXPORTS.

IMPORT PRICES AND VOLUMES HAVE CONTINUED TO RISE.
OUTLOOK IS FOR CONTINUED EROSION OF NET FOREIGN EXCHANGE
EARNINGS, WITH PROSPECT THAT NET ADDITIONS TO RESERVES
WILL FADE AWAY OVER

NEXT 12-24 MONTHS. (AS OF FEBRUARY
1 IN FACT, INDONESIA'S RESERVES WERE ONLY SOME \$50 MILLION
HIGHER THAN SEPTEMBER 30 POSITION. (IN PART THIS WAS
BECAUSE OF ITS DIFFICULTIES IN OBTAINING LONG-TERM
COMMERCIAL CREDIT FOR MAJOR DEVELOPMENT PROJECTS.)

7. INDONESIA IS CLEARLY NOT ALONE IN HAVING PROBLEMS
ATTAINING DEVELOPMENT OBJECTIVES. FOREGOING DATA
SUGGEST THAT KOREA AND TAIWAN HAVE SUFFERED DECLINE
IN EXTERNAL POSITION RELATIVE TO OTHER ASIANS IN 1974.
OTHER COUNTRIES PROBABLY FACE AGGRAVATED DEVELOPMENT
PROBLEMS IN OTHER RESPECTS. INDONESIA, HOWEVER,
REMAINS AT BOTTOM OF EAST ASIAN DEVELOPMENT SCALE BY
UNCOMFORTABLE MARGIN. CLEARLY EVEN WITH ITS OIL
REVENUES, IT FACES FURTHER DECLINE ON RELATIVE INCOME
SCALE. IN SPITE OF ITS OIL, MINERAL AND OTHER RESOURCE
WEALTH, AND PLANS UNDERWAY TO EXPLOIT THEM MORE FULLY,
LARGE FLOWS OF ECONOMIC AID AND CREDITS ON CONCESSIONAL
AS WELL AS HARDER TERMS WILL BE ESSENTIAL OVER THE
MEDIUM TERM IF INDONESIA IS TO GET OFF THE BOTTOM RUNG
OF THE INCOME LADDER IN EAST ASIA.
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